



**NEBRASKA ADVANTAGE ACT**  
**MICROENTERPRISE TAX CREDIT**  
**Spring 2010**

*This PowerPoint handout is used for training purposes in conjunction with the oral presentation given by Department training staff.*

*It is not intended to be a stand-alone document.*

*It is not an information guide, nor does it carry regulatory or statutory authority.*

*Nebraska tax statutes, regulations, information guides, and other resources are available at [www.revenue.ne.gov](http://www.revenue.ne.gov) .*

# MICROENTERPRISE TAX CREDIT

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Refundable income tax credit to individual taxpayers who meet certain criteria:

- \$2 million available beginning in each calendar year from 2006 to **2015**
- Total lifetime credits for any taxpayer, and any related party, are limited to \$10,000

# REQUIREMENTS

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1. Applicant actively engaged in the operation of a microbusiness
2. Microbusiness is located in eligible area
3. Microbusiness makes new investment or new employment
4. Most types of business activity qualify
5. The income of the applicant and microbusiness must be subject to income tax, including flow-through entities and
6. Microbusiness must [E-Verify](#) new employees

**Nonprofits do not qualify**

# DEFINITIONS

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- MICROBUSINESS
- QUALIFIED BUSINESS ACTIVITY
- APPLICANT
- ACTIVELY ENGAGED
- ELIGIBLE AREA
- NEW EMPLOYMENT
- NEW INVESTMENT

# MICROBUSINESS



- Any for-profit business employing 5 or fewer full-time equivalent (FTE) employees at the time of application
- Hours paid in the pay period that includes the application date determines the number of FTEs

Example: “Snapshot” at time of application

# Microbusiness (continued)



- Hours paid include regular, overtime, vacation, and holiday hours
- Salaried employees are counted at 40 hours per week
- Overtime hours are treated as straight hours
- Hours paid DO NOT include bonuses or severance pay

# QUALIFIED BUSINESS ACTIVITY

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All types of business activity qualify

- **EXCEPT:** Certain farm or livestock operations
- However...these farm and livestock operations **DO QUALIFY:**
  - If net worth is < \$350,000 based on fair market value, including holdings of spouse or dependents
  - Processing of ag products (NOT drying your own grain)
  - Aquaculture
  - Ag tourism
  - Production of fruits, herbs, trees, vegetables, tree nuts, dried fruits, organic crops, or nursery crops



# APPLICANT



- Must be an individual person (cannot be the business)
- Includes owners, managers, partners, members, or shareholders
- Does not have to be a Nebraska resident

# ACTIVELY ENGAGED



- Requires personal involvement on a continuous basis in the daily management and operation of the business

Example: The owner/manager qualifies.

A silent partner or board member who is not actively engaged **DOES NOT**.

# ELIGIBLE AREA



All Nebraska counties are eligible areas

**EXCEPT** Lancaster and Washington

- Municipalities in these counties are eligible areas:
  - *Lancaster -*  
*Bennett, Davey, Hallam, Hickman, Lincoln, Malcolm, Panama, Roca, Sprague, Waverly*
  - *Washington -*  
*Arlington, Blair, Fort Calhoun, Herman, Kennard*
- Certain census tracts in these 2 counties are also eligible areas

# NEW EMPLOYMENT

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- An increase in total employee compensation, for example:
  - Give current employees a raise
  - Pay employees for more hours
  - Hire more employees or
  - Increase the employer's costs for employees' health insurance
- Compensation also includes payment in trade
- Employee compensation **DOES NOT INCLUDE** compensation paid to any employee in excess of 150% of Nebraska average weekly wage
- Employees **MUST** be residents of Nebraska

# NEW INVESTMENT



- Microbusiness increases purchases of buildings and depreciable personal property
  - Motor vehicles do not qualify
- Repairs and maintenance of depreciable assets or
- Advertising, legal, and professional services

# New Investment (continued)

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- Leases of depreciable real or personal property
- New lease is required

$$\begin{array}{c} \textit{Increase in average annual rent} \\ \times \\ \textit{Number of years (max of 10 years)} \end{array}$$

# LEASE CALCULATION WORKSHEET

A	B	C	D	E	F
Leased Property **	Annual Lease Costs (Old Lease)	Annual Lease Costs (New Lease)	Increase (Col. C - Col. B)	Term of New Lease	Net Lease Increase (Col. D X Col. E)
Total Net Lease Increase					

\*\*The value for a lease with increasing annual rental payments is the average annual payments.

# New Investment (continued)



Example:

- My old lease was an annual lease with \$750/mo lease payments
- My new lease has a 60-month (5 year) term at \$1,000/mo lease payments
- Using the **Lease Calculation Worksheet**, my lease increase over the life of the new lease is **\$15,000**



# COMPLETED LEASE WORKSHEET

A	B	C	D	E	F
Leased Property **	Annual Lease Costs (Old Lease)	Annual Lease Costs (New Lease)	Increase (Col. C - Col. B)	Term of New Lease	Net Lease Increase (Col. D X Col. E)
	\$9,000	\$12,000	\$3,000	5 years	\$15,000
Total Net Lease Increase					\$15,000

\*\*The value for a lease with increasing annual rental payments is the average annual payments.

# APPLICATION PROCESS

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- [Applications](#) for the 2010 calendar year have been accepted since November 1, 2009
- Estimate the increase in annual income, investment, or employee compensation
- Filing a completed application establishes the **BASE YEAR**
- Check the [Authorization Table](#) online for availability of funds

# Application Process (continued)

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## **PART 1** MUST INCLUDE:

- Copy of the most recent federal income tax return for the applicant **AND** the microbusiness including -
  - Copies of the first 4 pages of the return, and any supporting schedules
    - ✓ Schedules C & F
    - ✓ Schedule K-1 for each shareholder or partner
    - ✓ Affiliations Schedule (Form 851)
    - ✓ Depreciation and Amortization Schedule (Form 4562)

# Nebraska Advantage Microenterprise Tax Credit Act Application

The taxpayer filing this application must be actively engaged in the operation of a microbusiness in an eligible area. An eligible microbusiness is a business with five or fewer full-time equivalent employees at the time of application, other than a farmer or livestock operator who has a net worth that exceeds \$200,000. Refer to the qualified location information on our Web site [www.revenue.ne.gov](http://www.revenue.ne.gov) to determine if the business is located in an eligible area.

## PART 1

Complete the following information about the taxpayer and the microbusiness in which it is involved.

APPLICANT – NAME AND MAILING ADDRESS				MICROBUSINESS – NAME AND LOCATION ADDRESS			
(PRINT CLEARLY)	Legal Name			Name			
	Street Address (Do not use P.O. Box)			Street or Other Mailing Address			
	City	State	Zip Code	City	State	Zip Code	
				County	Census Tract if in Lancaster or Washington County		
Social Security Number							

**1A** Describe your business activity including products sold and markets served.

**1B** Explain how you plan to expand your business and how this expansion will address current market needs. Be as specific as you can about when you plan to expand, what purchases you intend to make and/or how you will increase employee compensation.

**2** The microenterprise tax credit has a \$10,000 lifetime limit for the applicant and any related party. Has a Nebraska Advantage Microenterprise Tax Credit Act application been filed by you, your spouse, parent, sibling, child or a related party? ☐ YES ☐ NO

If Yes, please identify: Name \_\_\_\_\_ Social Security Number \_\_\_\_\_  
 Name \_\_\_\_\_ Social Security Number \_\_\_\_\_  
 Name \_\_\_\_\_ Social Security Number \_\_\_\_\_  
 Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

**2A** What was the amount of microenterprise credit authorized or requested by the prior applicant(s)? ..... **2A** \_\_\_\_\_

**2B** Enter the remaining possible credit. (\$10,000 – line 2A) ..... **2B** \_\_\_\_\_

**3A** Estimated income, expenditures, and credits. If a related person (see question 2 response) has applied, the base year figures and the estimated growth of the microenterprise must be shared (see application guide) and reflected in question 3A response.

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F	COLUMN G
	Base Year	Year 1	Year 1	Year 2	Year 2	Total	
	Tax Year Prior to Application	Year of Application	Increase (Column B-A)	Year After Application	Increase (Column D-A)	Two Year Increase (Column C + E)	Estimated Credit (20% of Column F)
Tax year ending date							
Annual income							
New investment*							
New employment**							

**3B** Total Estimated Credit ..... **3B** \_\_\_\_\_

**3C** Enter the lesser of line 2B or the credit estimated on line 3B ..... **3C** \_\_\_\_\_

\* This should include net lease increase, depreciable assets purchases, repairs and maintenance expenditures, advertising, legal and professional services expenditures of the microbusiness, other than expenditures related to vehicles required to be licensed. Use the Lease Calculation Worksheet in the application guide to determine net lease increase.

\*\* New employment means the amount of total compensation plus employer cost for health insurance for Nebraska resident employees.

# CLAIMING THE CREDIT

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- File [Form 3800N](#) with Form 1040N and include:
  - A copy of Part 2 of the application signed by the Department
  - A properly completed Part 3 of the application
  - Supporting documentation

## Nebraska Advantage Microenterprise Tax Credit Act Application

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Applicant's Name

Social Security Number

### PART 2

#### DEPARTMENT OF REVENUE USE ONLY

Total Credits Reserved



Department of Revenue Authorized Signature

Date

The Employment and Investment Credit Calculation, Form 3800N, must be filed with the applicant's individual income tax return for the year of application and the following tax year. Attach a copy of this form, signed by the Department of Revenue, to verify authorization to participate in the Microenterprise Tax Credit Act. Complete Part 3 of this form to calculate the credit earned and attach all required documentation.

# Nebraska Advantage Microenterprise Tax Credit Act Application

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Applicant's Name

Social Security Number

## PART 3

1	Enter the amount of total credits reserved in Part 2.....	1	
2	Enter microenterprise credit in prior year.....	2	
3	Remaining reserved credit (line 1 minus line 2) .....	3	
4	Calculation of microenterprise credit		

	Column A	Column B	Column C	Column D	Column E
	Base Year –Tax Year Prior to Application	Current Tax Year	Increase Over Base Year	Credit (20% of Col. C)	Credit Allowed
Tax year ending date					
Annual income					
New investment*					
New employment **					

\* This should include net lease increase, depreciable assets purchases, repairs and maintenance expenditures, advertising, legal and professional services expenditures of the microbusiness, other than expenditures related to vehicles required to be licensed. Use the Lease Calculation Worksheet in the application guide to determine net lease increase.

\*\* New employment means the amount of the total compensation plus the employer cost for health insurance for Nebraska resident employees.

**Total Credit**

5	Enter the lesser of line 3 or line 4 .....	5	
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### 6 Attach a copy of the following documents.

Base year and current year:

- Nebraska Reconciliation of Income Tax Withheld, Form W-3N, including a copy of the attached federal Wage and Tax Statements, Form W-2.
- Tax depreciation schedule
- Year end payroll register with year to date information to include total hours paid to hourly and salaried staff.
- Copy of lease agreements for any lease of qualified property.

Current Year:

- Copy of invoices supporting purchases of fixed assets, repairs and maintenance, advertising, legal and professional services.

**E-MAIL:** If you allow the department to contact you by e-mail, you accept any risk of loss of confidentiality associated with this method of communication.

**AUTHORIZED SIGNATURE.** This application must be signed by the individual actively involved in the microbusiness, or an individual authorized to sign for the applicant by a power of attorney on file with the Department. Attach a copy of a completed power of attorney.

**sign  
here**

Signature

Telephone Number

Please Print your Name

Title

E-mail Address

# Nebraska Advantage Act Tax Incentives

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**Mary Hugo**

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**Bill Weekly**

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**Let us know what you think.  
Please turn in your evaluation!**

**THANK YOU!**